

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 91-403-C - ORDER NO. 92-154 ✓
MARCH 3, 1992

IN RE: Petition of West Carolina Rural)	
Telephone Cooperative, Inc. for)	ORDER ESTABLISHING
Establishment of an Authorized)	RATE OF RETURN
Rate of Return.)	

On September 3, 1991, West Carolina Rural Telephone Cooperative, Inc. (West Carolina or the Company) filed a Petition with the Public Service Commission of South Carolina (the Commission) requesting that the Commission establish an authorized rate of return in the range of 13.00%. The Company did not seek any change in its basic rates and charges. The Petition was filed pursuant to S.C. Code Ann. §58-9-10, et.seq., (1976), S.C. Reg. 103-830, et. seq, (1976), and in response to a Commission Staff (the Staff) audit report which indicated that the Company's rate of return on rate base, after accounting and pro forma adjustments, was 12.97%, based on the twelve months ending December 31, 1989.

By letter dated September 12, 1991, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing in newspapers of general circulation in the effected areas, once a week for two consecutive weeks. The purpose of the Notice of Filing was to inform interested parties of the nature of the Petition and the manner and time in which to file the appropriate pleadings for participation in the proceeding. Thereafter, the

Company provided the Commission with proof of publication of the Notice of Filing. A Petition to Intervene on behalf of Steven Hamm, Consumer Advocate for the State of South Carolina (the Consumer Advocate), was filed with the Commission.

On February 18, 1992, at 11:00 a.m., a public hearing was commenced in the Commission's Hearing Room. The Honorable Henry G. Yonce, Vice-Chairman, presided. M. John Bowen, Jr., Esquire, represented the Company; Elliott F. Elam, Esquire, represented the Consumer Advocate; and Gayle B. Nichols, Staff Counsel, represented the Commission Staff.

The Company presented the testimony of Max R. Whitehurst, a Certified Public Accountant, to explain his accounting exhibits illustrating the Company's actual rate of return on rate base, to explain his adjustments to the Company's books, and to offer his opinion that the Commission should set an authorized rate of return on rate base for the Company. The Commission Staff presented the testimony of Sharon G. Scott, Utilities Accountant of the Commission Administration Division, to summarize the Staff's findings and recommendations. The Consumer Advocate did not present any witnesses.

Witness Whitehurst testified that the Company is requesting the Commission set an authorized return on rate base in the range of 13.00%. He explained that a range of 13.00% would allow a reasonable rate of return on investment for the Company and would allow some variation in operating results from year to year. Whitehurst emphasized that the Company's current local rates were set by the Commission in 1974 and that the Company is earning a

return on rate base of 12.97% based on those rates. Mr. Whitehurst testified that the rates charged by the Company were similar to those charged by other small, independent telephone companies in South Carolina and that the requested 13.00% rate of return was comparable to the rates of returns approved by the Commission for similar telephone companies since 1990. Mr. Whitehurst further testified that the Company's basic local exchange rates were lower than those of telephone companies in adjacent service areas. Mr. Whitehurst testified that approval of a 13.00% rate of return would not affect the Company's current rates. Finally, Mr. Whitehurst explained that because West Carolina is a cooperative, any profits realized by the Company are returned to the Company's customers.

The Consumer Advocate cross-examined Witness Whitehurst on his reasons for setting a return on rate base based on a rate of return on investment rather than a rate of return based on common equity. Whitehurst explained that, in his opinion, it was inappropriate to compare West Carolina to the larger telephone holding companies whose approved return on rate base is based on a rate of return on common equity. Whitehurst explained that the Company operates with a greater degree of risk than larger holding companies, that unlike a large holding company, a major catastrophe or loss of a large business customer could fatally upset the financial stability of the Company, and that like other small telephone companies, West Carolina has greater difficulty in obtaining financing than a larger holding company.

After a thorough review of the evidence presented and the applicable law, the Commission makes the following findings of fact

and conclusions of law.

FINDINGS OF FACT

1. West Carolina is a South Carolina company which owns and operates equipment and facilities for the transmission of intelligence for hire in this state.

2. The Commission Staff conducted an audit showing that the Company was earning a rate of return of 12.97%. In response to the Staff's audit report, the Company submitted a petition seeking an authorized rate of return in the range of 13.00%. The Company is not seeking an adjustment to its rates and charges.

3. Accounting and pro forma adjustments were made to the Company's books in order to illustrate the Company's present earnings to the Commission.

CONCLUSIONS OF LAW

1. The Company is a utility within the meaning of S.C. Code Ann. §58-9-10(6)(1976). Consequently, the Company's intrastate operations are subject the jurisdiction of this Commission.

2. Because accounting and pro forma adjustments were made in order to illustrate the Company's present earnings, the Commission need not determine the appropriateness of the adjustments.

3. Because the Company is a small, independent utility, this Commission will not make a determination as to the appropriate capital structure of the Company. Further, the Commission will not authorize a rate of return on equity.

4. Based upon the evidence, a fair and reasonable return on rate base of 13.00% is authorized for the Company.

5. This authorized rate of return will not affect the

Company's present rates and charges.

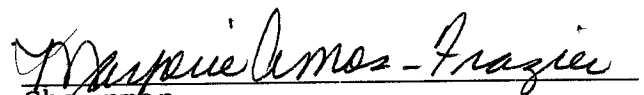
6. A rate of return on rate base of 13.00% will allow the Company to meet its statutory requirements to provide adequate, efficient, and reasonable service, will provide a return to the Company's owners (its customers) commensurate with returns on investments in other enterprises with corresponding rates, and will assure confidence in the financial integrity of the Company.

IT IS THEREFORE ORDERED.

1. West Carolina Rural Telephone Cooperative, Inc. is hereby granted the opportunity to earn an authorized rate of return of 13.00% on its South Carolina combined rate base.

2. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)